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TAGS: ECON EPET PGOV PREL BO
SUBJECT: KEEPING THE ECONOMY AFLOAT SANS CHEAP ENERGY?

REF: A. MINSK 003
¶B. MINSK 037

Classified By: Charge Jonathan Moore for reason 1.4 (d).

Summary

¶1. (C) Economists' forecasts for Belarus in the wake of significant energy import price rises vary greatly. Those most optimistic about the economy's prospects focus on the relatively benign budget implications for 2007 and the ability of Lukashenko to dictate adjustments. Pessimists note the major trade imbalance made imminent by the increase costs of imported energy and decreased competitiveness of manufactured goods for export. All analysts agree the regime will attempt to reduce the impact on the population at large. Lukashenko is unlikely to seek market solutions to his predicament, and his ability to successfully steer the economy through the approaching rough spots remains in doubt. End summary.

¶2. (SBU) This cable is based on a January 26 breakfast hosted for Belarusian economists in honor of visiting EUR/UMB Director Robert Boehme. Belarusian participants were Georgiy Badey, Chair of the Association of Entrepreneurs and Employers and a former minister with three different portfolios pre-Lukashenko; Aleksandr Matyas, Director of Macroeconomic and Short-term Forecasting at the Ministry of Economics' Economic Research Institute; Yaroslav Romanchuk, Director of the Mises Research Center; Irina Tochitskaya, Deputy Director of the Institute for Privatization and Management; Leonid Zaiko, Director of the Strategy think tank; and Sergey Zhbanov, correspondent for the weekly "BelGazeta."

Most Optimistic Observers Hold Slightly Pessimistic Views
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¶3. (C) Leonid Zaiko and Aleksandr Matyas held that the Belarusian government would likely succeed in limiting the damage to the economy caused by the increase in energy costs (reftels). Zaiko cautioned against overly dramatic predictions on the fate of the economy. He forecasted incomes would increase four to five percent in 2007, i.e. at least three percent less than the GOB's most optimistic inflation target. Zaiko posited that Belarus could earn USD 6 billion on arms sales easily, but the government would of course not widely publicize this fact.

¶4. (C) Matyas detailed the Economics Ministry's plans to cope with the increase in gas prices. He explained the Belarusian budget itself would not suffer greatly in 2007 (a viewpoint seconded by Irina Tochitskaya). However, he admitted the Ministry had not planned for Russian oil export duties, and

had so far not figured out what adjustments to make from 2008 and on when gas prices will rise even further.

Belarus Faces Risk of Serious Economic Shock

¶5. (C) Yaroslav Romanchuk discounted the importance of Matyas' calculations, asserting that they failed to consider the systemic effects of Belarus' changed relationship with Russia. Romanchuk said worse terms of trade on oil, gas and decreased access to Russian export markets could knock as much as 15 percent off Belarus's GDP. The most interesting moment could come this summer when it became clear whether the GOB was effective in shoring up the economy or had aggravated the situation.

¶6. (C) Sergey Zhbanov argued the Belarusian economy faced a crisis in liquidity due to the twin hits of duties on oil imported from Russia and the increase in gas prices (reftels). He said the result was pressure on the Belarusian ruble and a threat to the banking system. The January 26 decision of Priorbank to freeze lending should serve as the first warning of storm clouds on the economic horizon, according to Zhbanov. He said other banks also likely feared a liquidity crisis, but did not have the same freedom to act as the Austrian-owned bank.

¶7. (C) Irina Tochitskaya agreed with Zhbanov that decreasing profit margins on oil exports risked a large negative trade balance. Foreign investment would prove too low to make up the difference, she added. With Lukashenko having ruled out a devaluation of the Belarusian ruble, Tochitskaya suggested Belarus might consider borrowing from Russia. In any case, Tochitskaya predicted decreasing exports would prevent

Belarusian manufacturers from investing in modernization, further reducing their competitiveness. Georgiy Badey averred his colleagues' estimates on the looming losses to the economy struck him as reasonable.

Hit to Population Limited for Now

¶8. (C) All analysts agreed Lukashenko would focus his initial efforts on limiting the impact on individual Belarusians. Tochitskaya suggested this policy would continue through the parliamentary elections due for 2008. Badey complained that the government was foisting huge cost increases upon industry and many companies would not be able to withstand the increase in costs.

Comment: Lukashenko Does What He Knows Best

¶9. (C) Lukashenko has never before been forced into such a difficult economic situation, and World Bank representatives in Minsk assure us that there are many market-oriented GOB officials at the expert level who would be willing and ready to make necessary economic reforms if given the signal "from above" to proceed. However, none of the economists gave any indication Lukashenko might introduce more free-market elements into the economy to stimulate growth. Zaiko noted that Lukashenko would rely even more on commands from above to guide the economy, explaining that if the dictator understood market economics he would have employ market methods earlier.

¶10. (C) As seen during the oil dispute with Russia when Belarus drew down its oil reserves quickly (ref B), Lukashenko's commands often complicate the lives of subordinates trying to sustain the economy. Recent state media coverage of Lukashenko promising to hold everyone from factory directors to regional government executives accountable for the failure to reach economic targets sets the stage for the leader to place the blame on everyone's

shoulders but his own if the more dire economic predictions play out.
Moore